

FDIC State Profile

Spring 2006

South Dakota

South Dakota's economy continued its expansion in 2005.

- Employment increased about 1,600 jobs in the fourth quarter, contributing to an increase of about 7,000 jobs for the year, and attaining a record level of 392,300 jobs on a seasonally-adjusted basis.
- Year-over-year employment growth in the fourth quarter was 1.8 percent, exceeding the national rate of 1.4 (see Chart 1). Despite sustained job growth in the fourth quarter, South Dakota's unemployment rate remained unchanged at 3.8 percent as new job seekers continued to enter the labor force.
- South Dakota's manufacturing sector had the greatest growth of all major sectors, with year-over-year employment growth of 3.3 percent in the fourth quarter. Although this marks the sector's eighth consecutive quarter of year-over-year gains, it remained 3,900 jobs below the peak attained in fourth quarter 1999.

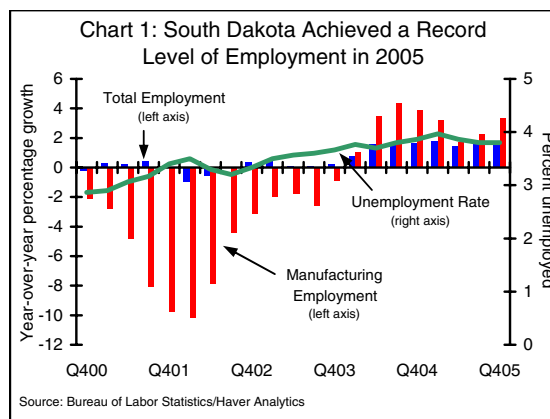


Table 1: Most Commodity Prices Are Expected to Decline in 2006

	2003	2004	Est. 2005	Forecast 2006	% of SD Ag Cash Receipts
Corn	2.32	2.42	2.06	1.90	19.5
Soybeans	5.53	7.34	5.74	5.50	16.8
Wheat	3.56	3.40	3.40	3.40	8.8
Cattle	84.69	84.75	87.28	85.50	33.6
Hogs	39.45	52.51	50.05	43.50	7.6
Other					13.7

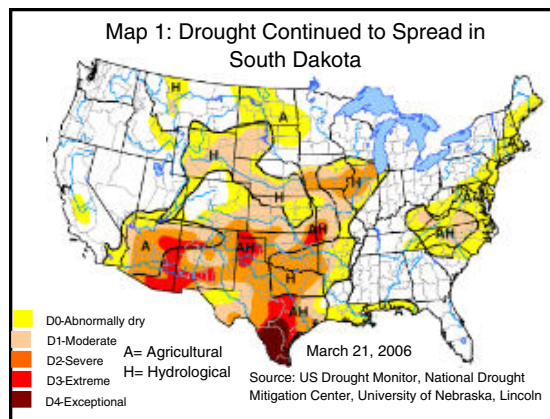
Note: Grain prices are for marketing year of each crop. Crop quantities are per bushel; livestock are per hundredweight.
Source: USDA WASDE, February, 2006, USDA/ERS 2005

South Dakota's farm income is expected to decline in 2006.

- The United States Department of Agriculture (USDA) has forecasted a 22 percent decline in national farm income from 2005 to 2006 due to lower livestock and crop values and increased energy costs. South Dakota farmers can expect a similar decline in their farm income.
- Record corn harvests in 2004 and 2005, both nationally and in South Dakota, have led to record inventories, depressing the price in 2006 (see Table 1). Similarly, a record soybean harvest in 2005 has lowered the price of that commodity.
- Cattle prices will begin to moderate in 2006 as the cattle population is expanding in response to the high prices enjoyed in 2004 and 2005. The South Dakota population of cattle increased in 2005 for the first time since 2001.

Drought conditions continued to threaten the agricultural sector in western South Dakota.

- Drought conditions have persisted in South Dakota since 2000. While the severity of drought conditions has diminished over the past year, "moderate" drought



State Profile

conditions still cover more than half the state (see Map 1).

- The unseasonably dry weather pattern that prevailed most of the winter is causing crop producers concern that that freezing temperatures could damage winter crops normally protected by snow cover.¹
- Warmer winter weather aided livestock producers who reported fewer livestock losses than normal.

Energy prices for South Dakota farmers are forecasted to rise again in 2006.

- According to the USDA, in February 2006 fertilizer and fuel costs were up 16 percent and 30 percent, respectively, from one year earlier. Overall, fertilizer and fuel costs are forecasted to increase 9.7 percent nationally in 2006 (see Table 2).²
- Rising costs for fertilizer and fuel are in part due to increased global fuel demand and the continued recovery from last year's active hurricane season; in the Gulf region, approximately 17 percent of normal natural gas production and 25 percent of oil production remain off-line.³
- Nationally, the USDA estimates that fuel and fertilizer costs accounted for 10.9 percent of total agricultural production costs in 2005, up 11 percent from 2004.

Insured small community institutions in South Dakota reported an earnings decline in 2005.

- Earnings performance remained strong, although the median annual return on assets (ROA) ratio declined by 14 basis points in 2005. The decline in ROA was due to increases in noninterest expense and loan provisioning that more than offset a 10 basis point increase in the net interest margin (NIM).
- NIM increased for a third consecutive year as the spread between loan and security yields and funding interest costs continued to widen (see Chart 2).

Insured institutions in South Dakota's reported sharp increases in construction and development loan (C&D) concentrations.

- Insured institutions, particularly those headquartered in the state's larger urban markets, reported strong growth in C&D lending in 2005, boosting C&D concentrations to new highs (see Chart 3). This growth mirrored strong growth in South Dakota's construction sector. This type

of loan tends to have higher risk but also yields higher returns.

- Although state C&D concentrations have increased, they remain subdued relative to national figures. Nationally, the median C&D concentrations for metropolitan and micropolitan areas are 61 percent and 28 percent, respectively.

Table 2: Higher Energy Costs Are Expected for South Dakota Farmers in 2006

	Acres* (1,000)	Cost per acre** 2006 estimates		Cost per acre** 2000-2004 Avg.	
		Fuel	Fertilizer	Fuel	Fertilizer
Com	4,450	41.94	58.25	24.26	42.47
Soybeans	3,900	13.52	10.25	8.49	7.69
Wheat	3,315	16.95	28.24	10.38	21.20

*Estimated 2005 Planted Acres. **Cost per acre for nation.
Source: USDA/NASS Crop Production, USDA/ERS Cost and Returns Data.

Chart 2: NIM and Loan Yield Spread Increases Slowed at South Dakota Small Community Institutions

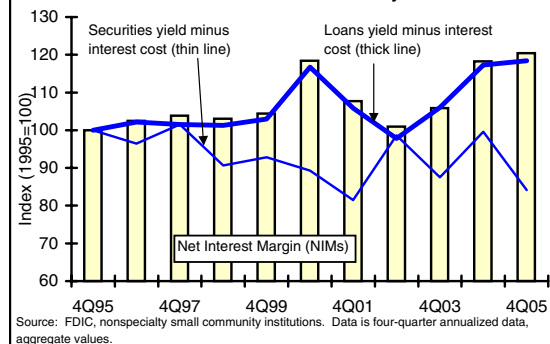
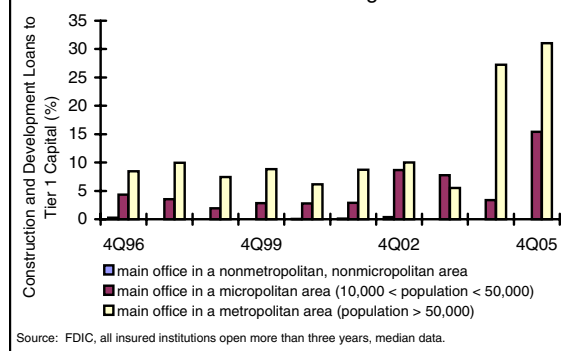


Chart 3: Construction Lending Increased Sharply at Institutions in South Dakota's Larger Urban Areas



¹United States Department of Agriculture.

²NASS, USDA, *Agricultural Prices*, February 28, 2006.

³Office of Electricity Delivery and Energy Reliability (OE), U.S. Department of Energy, *Final Gulf Coast Hurricanes Situation Report (#46)*, January 26, 2006.

South Dakota at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.8%	1.7%	1.7%	1.4%	0.2%
Manufacturing (10%)	4.6%	2.1%	3.9%	3.2%	-1.8%
Other (non-manufacturing) Goods-Producing (6%)	2.5%	5.2%	4.4%	2.7%	3.5%
Private Service-Producing (65%)	1.6%	1.7%	1.3%	1.3%	0.2%
Government (19%)	1.1%	0.2%	1.0%	0.5%	0.5%
Unemployment Rate (% of labor force)	3.8	3.8	3.9	3.8	3.6
Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	2.6%	4.4%	6.2%	8.8%
Single-Family Home Permits	-4.0%	26.9%	20.1%	15.8%	7.7%
Multifamily Building Permits	55.6%	-57.1%	201.7%	57.7%	16.1%
Existing Home Sales	1.6%	10.5%	14.5%	10.9%	4.7%
Home Price Index	8.1%	8.1%	5.8%	6.0%	4.2%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	6.08	6.47	3.02	3.54	3.58

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	92	91	91	91	94
Total Assets (in millions)	471,238	448,752	442,453	442,453	85,420
New Institutions (# < 3 years)	1	0	0	0	0
Subchapter S Institutions	37	37	33	33	32
Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.21	1.63	1.47	1.47	1.95
ALLL/Total Loans (median %)	1.52	1.49	1.62	1.62	1.71
ALLL/Noncurrent Loans (median multiple)	2.58	2.39	2.69	2.69	2.11
Net Loan Losses / Total Loans (median %)	0.08	0.01	0.06	0.10	0.18
Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	10.72	11.09	10.70	10.70	10.72
Return on Assets (median %)	1.12	1.54	1.23	1.32	1.15
Pretax Return on Assets (median %)	1.40	1.98	1.59	1.65	1.57
Net Interest Margin (median %)	4.57	4.62	4.55	4.46	4.30
Yield on Earning Assets (median %)	6.69	6.78	6.23	6.14	6.31
Cost of Funding Earning Assets (median %)	2.27	2.12	1.65	1.61	1.90
Provisions to Avg. Assets (median %)	0.10	0.04	0.08	0.08	0.09
Noninterest Income to Avg. Assets (median %)	0.66	0.74	0.78	0.65	0.61
Overhead to Avg. Assets (median %)	3.42	3.11	3.49	3.24	3.18
Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	69.5	70.8	68.4	68.4	66.7
Noncore Funding to Assets (median %)	16.8	18.4	15.6	15.6	13.0
Long-term Assets to Assets (median %, call filers)	11.7	13.0	13.4	13.4	12.8
Brokered Deposits (number of institutions)	30	31	25	25	23
Brokered Deposits to Assets (median % for those above)	3.4	3.8	3.4	3.4	3.1
Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	78.9	88.2	84.6	84.6	82.2
Commercial Real Estate	53.6	55.8	55.9	55.9	41.2
Construction & Development	5.2	6.9	3.2	3.2	2.0
Multifamily Residential Real Estate	0.0	0.0	0.0	0.0	0.0
Nonresidential Real Estate	47.7	40.1	35.7	35.7	37.0
Residential Real Estate	31.9	34.7	35.8	35.8	34.6
Consumer	43.2	46.9	50.4	50.4	50.1
Agriculture	222.6	227.0	230.2	230.2	242.3

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Sioux Falls, SD	32	32,171	< \$250 million	69 (75%)
Sioux City, IA-NE-SD	34	2,051	\$250 million to \$1 billion	17 (18.5%)
Rapid City, SD	13	1,538	\$1 billion to \$10 billion	4 (4.3%)
			> \$10 billion	2 (2.2%)